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**FISCAL IMPACT STATEMENT**

**LS 6491**

**BILL NUMBER: SB 175**

**NOTE PREPARED:** Feb 6, 2003

**BILL AMENDED:**

**SUBJECT:** Sales Tax Exemption for Energy Star Appliances.

**FIRST AUTHOR:** Sen. Server

**FIRST SPONSOR:**

**BILL STATUS:** CR Adopted - 1<sup>st</sup> House

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
**FEDERAL**

**IMPACT:** State

**Summary of Legislation:** This bill exempts sales of certain energy-efficient appliances from the State Gross Retail Tax for sales occurring after June 30, 2003, and before January 1, 2008.

**Effective Date:** Upon passage.

**Explanation of State Expenditures:** The bill would require the Department of State Revenue to develop rules associated with the exemption. Any impact on the Department is expected to be absorbed using its existing staff and resources.

**Explanation of State Revenues:** This bill temporarily exempts the sale of clothes washers, refrigerators, dishwashers, and room air conditioners that meet or exceed the Energy Star efficiency standards developed by the U.S. Environmental Protection Agency (EPA) and the U.S. Department of Energy (DOE) from the state Sales Tax. The exemption is limited to sales that occur from June 30, 2003, to January 1, 2008. It is estimated that over the life of the exemption period the impact on state revenues will be as follows:

FY 2004	(5.1 M)
FY 2005	(5.0 M)
FY 2006	(5.5 M)
FY 2007	(6.3 M)
FY 2008	(3.3 M)
<b>Total</b>	<b>(\$ 25.3 M)</b>

The estimates shown above are based on the average price of each type of qualified Energy Star appliance,

the estimated market share of the different types of Energy Star appliances, and the estimated total number of units of each type of appliance sold in Indiana. The analysis also assumed that the bill's effective reduction in the price of qualified appliances would impact the number purchased by approximately 2% each year. This increase is in addition to the estimated growth in the market share of Energy Star appliances as a result of changes in federal standards and in manufacturing efficiencies.

P.L. 192-2002 (ss) increased the Sales Tax rate to 6% and modified the distribution of Sales Tax revenue. The increase became effective on December 1, 2002, and the distribution changes are effective January 1, 2003. After January 1, 2003, Sales Tax revenue will be deposited in the Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Loan Fund (0.033%).

The reductions in the above funds due to the Sales Tax exemption proposal are estimated to be:

	<b>FY 2004</b>
Property Tax Replacement Fund	\$ 2,550,000
General Fund	2,508,792
Public Mass Transportation Fund	32,385
Commuter Rail Service Fund	7,140
Industrial Rail Service Fund	1,683
<b>Total</b>	<b>\$5,100,000</b>

If more energy-efficient appliances are purchased as a result of this bill, the state may see further reductions in Sales Tax income generated from the sale of electricity, natural gas, and water. Estimates from research sponsored by the Energy Star program suggest that if the bill encourages the purchase of 2% more Energy Star-rated appliances in Indiana each year, Sales Tax revenue for the sale of these utilities could be reduced by as much as \$57,000 per year.

Purchasers of exempted Energy Star appliances may choose to use the savings created by this exemption to purchase other taxable goods that would not have been purchased otherwise. If additional taxable goods are purchased, the impact of this proposal may be partially mitigated.

*Background Information:* The Energy Star program was developed by the U.S. DOE and the EPA. An appliance receives an Energy Star label if it is significantly more energy efficient than the minimum government standards for energy efficiency. According to the EPA, Energy Star-labeled products are typically the most energy efficient products available.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** Association of Home Appliance Manufacturers; U.S. Bureau of Labor Statistics, *Consumer Expenditure Survey*; Bill McNary, D and R International, 301-588-9387; U.S. EPA and U.S.

Department of Energy, [www.energystar.gov](http://www.energystar.gov).

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